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SUBJECT: Global Financial Crisis Batters GM/Holden

REF: A) Canberra 1134, B) Canberra 1079, C) Melbourne 125

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Summary

1. (SBU) GM/Holden's Chairman, Mark Reuss believes that the Australian auto industry's largest foe is sagging consumer confidence. Reuss is pursuing alternative financing to help struggling dealerships and believes the Rudd government's recently announced car plan will help the industry adapt and evolve. Looking to the future, GM/Holden will remain in the large sedan segment in Australia, but will vigorously pursue fuel efficient technology for existing platforms. The Chairman closed the meeting on an upbeat note by stating that confidence should recover within twelve months. His weary appearance, however, suggested that GM/Holden was working overtime to keep its nose above water, especially in a market increasingly dominated by imported vehicles. End Summary.

"It's All About Confidence"

2. (SBU) Mark Reuss, GM/Holden's Chairman and Managing Director, told DCM and CG on November 24 that his company's primary challenge at the moment is overcoming battered consumer confidence. "There is not much in the way of real problems," he said, "it is all about confidence." Reuss explained that negative perceptions of the automotive industry in the United States have passed quickly to Australia via the media and have damaged consumer confidence in the local economy. In the last four weeks, GM/Holden has experienced a rapid decline in demand for its products to the tune of 23-25 percent. Holden's fleet business, which accounts for 60 percent of all Australian sales, has all but "dried up."

3. (SBU) Reuss pointed out that GE and GMAC's decision to pull out of the auto financing business in Australia (ref. C) "compounded" difficulties caused by sagging demand and have left retailers searching for alternative methods of financing. Many Holden dealerships have long-standing relationships with local banks who have offered to provide temporary financing for their businesses and customers. In addition, Reuss said that he is working to get an existing bank, guaranteed by the Rudd government's offer to backstop bank holding companies, to fill the void left by GE and GMAC.

4. (SBU) GM/Holden, according to its Chairman, has found several opportunities in the current economic climate. A heavily depreciated Australian dollar has helped make exported vehicles more profitable, but the global financial crisis has significantly deflated U.S. demand. In addition, Reuss said that prospects in the Middle East are good with Ford's Crown Victoria model disappearing from the scene. This makes GM/Holden "the only game in town" for a large sedan market segment which remains popular in GCC countries.

Assistance Packages "Welcome"

15. (SBU) Reuss effusively praised the Rudd government's November 10 rollout of the "New Car Plan for a Greener Future" (ref. A) assistance package. He said that the Rudd government was "well in tune" with what is necessary to see Australia's automotive sector through the current crisis. Although Reuss claimed that the Detroit downturn will not affect operations in Australia as quickly or as deeply as it has in the United States, he believes that a "rationalization" of the Australian auto industry's supply base will likely occur. Components manufacturers, Reuss said, will need to adapt to take advantage of incentives offered by the Rudd government's new program. Trouble at Ford Australia could precipitate even faster streamlining of the components manufacturing sector. (Note: For more information on Australia's auto components sector, see ref. C. End note.)

16. (SBU) Responding to DCM's question about the potential for a hybrid automobile market in Australia, Reuss stated that while the GOA's recent initiative may help stimulate more interest in green car technology, "paying an AU \$17,000 (US \$9,350) premium for these cars still does not make sense in Australia." Turning to a potential assistance plan for U.S. auto makers, Reuss said that the benefits would certainly flow through to the Australian automotive industry because the GM parent company invests in global platforms. On the other hand, benefits flowing from the Australian assistance plan were unlikely to impact U.S. operations and would largely stay in Australia.

The Future of GM/Holden

17. (SBU) Reuss emphasized that GM/Holden still manufactures the best-selling car in Australia -- the Commodore which accounts for 50 percent of its market segment. GM/Holden will invest heavily in new technologies for its existing platforms, on which the parent company

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has already invested sizable sums. Reuss stated that GM/Holden intends to introduce the most sophisticated V8 engine in the world, which will selectively shut down four of its eight cylinders when they are not needed. Finally, it will roll out a new technology every two to three months over the next four years.

18. (SBU) According to Reuss, GM had just undertaken a lengthy and costly restructuring effort when the global financial crisis struck. He said that the parent company had cut US \$9 billion of costs from its annual operating budget. In addition, a recently negotiated labor contract would significantly cut its labor costs, but will not come into effect until 2010. He closed the meeting on an upbeat note by stating his belief that Australians will be ready to buy cars again within the next 12 months.

Comment

19. (SBU) GM/Holden's embattled Chairman was careful to highlight the opportunities offered by the current financial environment to the Australian automotive industry. The company, however, clearly faces continued challenges as it struggles to maintain relevance in a sector that is increasingly dominated by imported vehicles. Holden is also gambling that Australia will continue to remain loyal to the best-selling six cylinder Commodore once fuel prices resume their upward movement.

THURSTON